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SIPDIS

SENSITIVE

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TREASURY FOR OASIA/INL
COMMERCE FOR 4331/MAC/WH/MCAMERON
USDA FOR FAS/ITP/GRUNENDFELDER

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SUBJECT: PERU'S TEXTILE EXPORTS INCREASE 13 PERCENT IN Q1 2005

REF: A) Lima 68 B) Lima 2235

1. (U) Summary. Peru's textile industry witnessed a 13 percent increase in exports during the first quarter of 2005 year-on-year, despite local fears that the end of the Multi-Fiber Agreement (MFA) would limit the Peruvian textile industry's ability to compete internationally. The GOP, noting the overall success of the textile industry, refused to renew temporary safeguards on 20 sensitive textile products, which expired on May 1. Bowing to political pressure, the GOP established new customs regulations on 36 different items, including 13 of the sensitive textile products. Exporters and industry representatives continue to pressure the GOP to re-implement safeguards, arguing that a flood of Chinese exports would cause a 30 percent drop in Peruvian textile prices over the next year. End Summary.

Solid Growth in Textile Exports

2. (U) Since the implementation of ATPDEA in 2002, which granted increased access to the U.S. market, Peru's textile and apparel sector has grown over 25 percent. This growth is primarily seen in the external sector, as domestic market sales have increased by less than 5 percent since 2002. Textile and apparel products now account for approximately 10 percent of exports, the majority of which are sold to the United States. Under ATPDEA, Peruvian textile exports to the United States increased from \$532 million in 2002 to \$887 million in 2004 - a 60 percent increase. The benefits of ATPDEA for the textile industry are proven; without access to U.S. markets, analysts confirm that Peruvian textile exports would not have increased at such a quick pace.

3. (U) In 2004, Peru exported approximately \$1.1 billion in textiles and apparel products, increasing from \$900 million in 2003. Peru has over 30,000 national companies involved in the textile sector. Only 62 companies, however, account for 94 percent of textile exports. Peruvian textile companies produce a wide range of products, from high-end pima cotton shirts to lower-quality t-shirts. The manufacturers that account for the majority of exports focus primarily on high-end niche products, for which there is a high demand worldwide. Nevertheless, the industry feared that the elimination of the Multi-Fiber Agreement, which allowed China to export its inexpensive textile products, would cause Peru to lose international market share (ref A).

Peruvian Textile Exports, 2003-2005*

	USD, millions			Percent Share		
	2003	2004	2005*	2003	2004	2005*
Textiles	165.0	170.0	242.2	2.1	1.7	1.3
Apparel	654.0	709.3	48.1	8.5	7.0	6.5
Txtl/Apprl	819.0	883.3	290.3	10.6	8.7	7.8
Total Expts	8965.6	10064.7	3706.7	100.0	100.0	100.0

Source: INEI (Statistics Bureau), Central Bank

*Through First Quarter 2005

4. (U) These fears appear unwarranted: the Peruvian textile industry exported \$290.3 million during the first quarter 2005 - 13 percent higher than the \$252.1 million exported during the same period last year. Textile exports to the United States also increased from \$103.3 million in first quarter 2004 to \$121.5 million in 2005, an increase of 17.6 percent. Overall prices of Peruvian textiles exported to the U.S. rose by 12.9 percent, which reflects the higher value of Peru's high-end textile products. Peruvian textile firms also import from the United States approximately 50 percent of pima cotton used in producing high-end products, which further aids Peru's competitiveness in up-market product sales.

5. (U) Although overall exports increased, a study on

Peru's textile competitiveness conducted by Indecopi (government agency responsible for intellectual property and competitiveness issues) demonstrated that the majority of small and micro enterprises (SMEs) have not yet witnessed an increase in exports in 2005. In fact, the Indecopi report pointed out that the top 50 exporters witnessed an increase in exports, but that several SMEs experienced a drop in export levels. Other private sector studies highlighted that small domestic producers, particularly those who produce lower-end textile products, are, in fact, facing intense competition from China. Luis Vega, President of ADEX, (an export association) explained that larger companies are better equipped to make necessary production changes to minimize the damage caused by Chinese exports, but that SMEs do not have the financial ability to shift into the production of high-end goods.

A Need for Safeguards?

16. (U) Peru was one of the few countries that imposed safeguards on Chinese textiles before the elimination of the MFA (ref A). In October 2004, the GOP established temporary safeguards on 20 sensitive textile products; these protections expired on May 1. After conducting a review of the textile industry from October 2004 - March 2005, the GOP decided not to extend these safeguards. To appease the opponents, the GOP on the same day passed new customs regulations calling for "special attention" on 36 different imported items, including 13 sensitive textile products, stating that if not monitored, these products could harm local industry. The new regulations also gave Customs the power to place additional tariffs on these 36 products if it detects that importers are engaging in fraudulent behavior, such as dumping.

17. (U) Despite new regulations, local industry and several export societies continue to demand that the GOP reinstate textile safeguards. The National Manufacturer's Society's (SNI) study of the textile industry claims that without safeguards, Peruvian imports of Chinese textiles would increase by 300 percent in 2005. Adex argues that textile prices will drop by 30 percent in order to be able to compete with the cheaper Chinese products. On May 24, over 3,000 textile manufacturers demonstrated in Lima, demanding higher tariffs on Chinese products (ref B).

18. (U) While the Executive continues to cite the lack of a need for safeguards, the Ministry of Production, working with Indecopi, plans to conduct another survey of the textile industry, which should be completed by the end of June. Vice Minister of Production Antonio Castillo attempted to appease textile demonstrators last week, noting that safeguards could only be imposed after the new survey is completed, assuming that the survey shows negative developments in the textile sector.

Say No to Used Clothing

19. (U) In keeping with the protectionist trend, the GOP in early May approved a new law that indefinitely prohibits the importation of used clothing and shoes (donations are exempted). In justifying the law, Minister of Production David Lemor explained that used clothing imports would displace Peru's low-end products, affecting thousands who work directly and indirectly in the textile sector. This law, he noted, is a measure to save local jobs.

10. (SBU) Comment: This law extended Peru's temporary ban on used clothing and shoes, and will have implications for our current FTA negotiations. Several Peruvian Congressmen, in passing this law, noted that it provides guidelines for the Peruvian negotiators, comparing it to the U.S. Congress' guidelines for USTR found in the Trade Promotion Authority (TPA). Unfortunately, while the new law does provide some guidelines for the negotiators, instead of enabling them to fully negotiate a beneficial agreement, it limits their ability to make deals. End Comment.

Comment

11. (SBU) Although the textile industry experienced a strong surge in exports in early 2005, it remains to be seen whether the sector will maintain this level of growth. The United States continues to be the most important market for Peruvian textile products. With American safeguards on Chinese products and self-imposed Chinese export tariffs, and the fact that Peruvian textile manufacturers produce for a higher end niche market, Peruvian textiles should continue to be competitive on the world market. However, an in-flood of Chinese textiles will affect local textile prices and therefore the profitability of the industry. The GOP will likely bow to political pressure and reinstate safeguards. After all, it is easier to impose safeguards than undertake the serious reforms necessary, including the development of

more efficient techniques and procuring updated machinery,
to make the industry, particularly the SMEs, more
competitive.

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